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Comparative Analysis of Spanish Banks' Standalone Credit Profile

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Abstract

The paper studies the relationship between four differently rated bank's financial profile and their standalone credit rating issued by Moody's. The comparative analysis shows an example that despite their pricing power and geographical coverage, larger banks do not necessarily have better credit ratings. Instead, business model and risk appetite seem to be the defining factors of banks' vulnerability to shocks, such as the Spanish real estate crisis. The risk-return relationship is also identified in the banks' fundamentals meaning that while expansionary strategy in riskier asset classes enhances margins, it also potentially distorts the credit risk profile.

Keywords: non-performing loans, capitalization, net interest margin, wholesale funding

Introduction

Since the outbreak of the euro area debt crisis, Spain has been downgraded five times by Moody's, notching down the country's Long-Term Issuer rating from Aaa (June 2010 – On watch for possible downgrade) to Baa3 (June 2012). After a series of downgrades, the sovereign has been upgraded by the agency for the first time in February 2014¹ supported by 1) the improvements made by the economy on the back of structural reforms (such as labour and pension systems as well as changes to the fiscal framework) and 2) progress in the government's funding profile compared to mid-2012 conditions.

Over the same period of time, there were similar actions taken for a large cluster of Spanish banks². While the underlying reasons for the deterioration of banks' credit profile generally corresponded for the sector as a whole, there are various firm specific indicators that define why a bank is downgraded sooner or later vs. the others, or how many notches were applied in the downgrade. Figure 1 shows that some bank's credit rating has been more stable over the past four years (E.g. Caixabank) while others suffered much more when economic conditions were weak (E.g. Banco Popular).

The paper compares those financial indicators that define banks' credit worthiness for four Spanish banks with slightly altered risk profiles, each of them currently rated differently by Moody's. The purpose of the study is to outline the particularities in the analysed banks' risk profile by identifying the factors that are credit positive or credit negative for the institutions' standalone credit rating.

¹ Rating action: Moody's upgrades Spain's government bond rating to Baa2; assigns positive outlook (February, 2014)

² Rating Action: Moody's downgrades Spanish banks; ratings carry negative outlooks or remain on review for downgrade (May, 2012)

Methodology

The paper is built on the comparative analysis of four Spanish banks' standalone credit profile, which is generally affected by two major risks: 1) asset quality, with the bank's capitalization and profitability serving as risk mitigants and 2) funding, which is mitigated by liquidity. In order to assess these risks and their mitigants, I have analysed the following financial ratios:

Asset Quality	Capitalization	Profitability	Funding & Liquidity
Non-performing loans / Gross loans (NPL ratio)	Common Equity Tier 1 (CET1) ratio	Net Interest Margin (NIM)	Loan-to-Deposit ratio (LDR)
Loan provisions / Gross loans (Cost of risk)	Total Capital Ratio (TCR)	Return on risk-weighted assets (RRWA)	Liquid assets / total assets
Commercial Real Estate loans / Gross loans (CRE/gross loans)	Deferred tax assets / CET1 (DTA/CET1)	Return on average equity (ROAE)	Liquid assets / Wholesale funding maturities
Reposessed Real Estate assets / Gross loans	Adjusted CET1 ratio for DTAs	Cost-to-Income (C/I) ratio	

The vast majority of these ratios are used by rating agencies Moody's and Fitch in their global credit rating methodologies for banks³. The more specific ratios, such as: CRE/Gross loans, Reposessed real estate assets/Gross loans, DTA/CET1 and Adjusted CET1 for DTAs, are not directly implemented in the global rating methodologies since they point out the weaknesses characteristic of Spanish banks. Therefore, if applicable, they are used as adjustments to the score given to certain risk factors (i.e. asset quality, capitalization, profitability, funding & liquidity) to add accuracy to the resulting standalone credit rating.

While Moody's publishes a wide range of rating symbols⁴, this study considers the Baseline Credit Assessment (BCA), which indicates the bank's standalone credit strengths, excluding any external support from affiliate or government and is the core input to the final long-term rating⁵. Since my study also focuses on the standalone creditworthiness of banks based on their financial profile, the BCA is the most suitable rating type for my analysis. The BCAs are

³ For example as described in Fitch Ratings Global Bank Rating Criteria, March 2015 and Moody's Investors Service Rating Methodology: Banks, March 2015

⁴ Moody's Rating Symbols and Definitions, August 2015

⁵ Moody's Bank Rating Methodology: Analytical Approach in Brief, March 2015

denoted on a lower-case alpha-numeric scale (aaa, aa1, aa2, ..., c) corresponding to the one used for the global long-term ratings.

Moody's currently issues BCAs to 18 Spanish banks, which jointly accounted for 91% of total domestic bank assets at 31 December 2014 (See Figure 2). The asset-weighted average BCA of the 18 banks is baa3, mainly driven by Santander (baa1) and BBVA (baa2) which account for 54% of total domestic assets (excluding these two banks, the average is ba3). Despite the two systematically important banks, out of the 18 rated banks three were subject to restructuring in 2012 (Bankia, Catalunya Banc, Abanca), four went through significant structural changes through mergers during the consolidation of the Spanish banking sector (Unicaja, Ibercaja, Liberbank, Kutxabank) and five have either a specific function or business profile (Cecabank, Banco Cooperativo Espanol, Caja Laboral Popular, Caja Rural de Navarra, Banca March) which makes them less suitable for comparison purposes. Therefore, the banks chosen for the analysis are: Bankinter (baa3), Caixabank (ba1), Banco Sabadell (ba3) and Banco Popular Espanol (b1), which represent different rating categories but belong to the same peer group. Figure 1 shows how these banks compare to each other in terms of their standalone rating migration: Caixabank shows the most stability, Bankinter is the only one with an upgraded BCA in the past 4 years, Sabadell has been downgraded once by 1 notch, while Banco Popular has suffered a 2-notch downgrade a few months before Sabadell. The comparative analysis of the fundamentals reveals the underlying reasons for these rating migrations.

The remainder of the paper is divided into five sections providing a full credit opinion on the banks by commenting on each of the four key areas: asset quality, capitalization, profitability and liquidity & funding. The last section presents the conclusions and a forward looking rating evolution for each bank.

1) Asset Quality

- *Close links between banks' Commercial Real Estate (CRE) exposure and rating*

It is observed, that there is a strong relationship between banks' asset quality and their credit rating migration. More specifically, banks with high exposure to the weak CRE segment have suffered the most during the crisis, as is the case of Banco Popular, which has experienced the most severe downgrade by four notches in June 2012 (from A3 to Ba1), when the agency has reduced the rating on 28 Spanish banks by one to four notches⁶, following the downgrade of the sovereign to Baa3. This is underpinned also by Figure 3 which shows the evolution of the NPL ratio across banks. Banco Popular, the weakest bank in terms of asset quality with an NPL ratio of 18%, has also the largest portion of real estate-related problem loans (Figure 4). While the bank has been reducing its lending portfolio to CRE (Figure 5a), NPLs remained on the upsurge over the past years due to the deterioration of other asset classes such as residential mortgages and corporates, mainly due to Banco Popular's strategic orientation towards risky SME lending (+24% yoy at 3Q15) in search for higher yields (as a result, Banco Popular's net interest margin is the highest among peers – *See Profitability section*). Apart from NPLs, the bank has also accumulated a large stock of repossessed real estate assets, which account for 8% of gross loans (Figure 4), and if included, would raise the NPL ratio to 27%.

Sabadell's asset quality is the second worst among the four peers, with an NPL ratio of 18.3% at 2014, well above the system average of 12.6%, although down from the previous year's 19.5%. The material deterioration in the bank's asset quality in 2012 is in conjunction with the acquisition of the distressed Banco CAM, for which Sabadell has received an Asset Protection Scheme guaranteed by the FGD (Fondo de Garantia de Depositos) reaching the amount of ca. €21bn, net of provisions already in place. Excluding the non-performing loans covered by the APS, the bank's adjusted NPL ratio is estimated at 13.2% (vs. 14.2% at 2013). Additionally,

⁶ Rating Action: Moody's downgrades Spanish banks (June, 2012)

the bank has actively reduced its CRE portfolio over the past 3 years (7% of loans at 2014 vs. 12% at 2012 – See Figure 5d), while there is a visible shift towards SME and corporate lending, which now account for almost half of the loan book. On the other hand, real estate related problem loans in the form of repossessed assets are still material (Figure 4), and if included, results in an NPL ratio of 21%.

Caixabank's asset quality ranks second best among the four banks. Although still weak, the NPL ratio has come down to 9.9% at 2014 from previous year's 11.7%, thanks to the active management of the doubtful loans represented by additional foreclosures (€5bn at 2014 vs. €4.7bn at 2013) combined with improving economic conditions. The drag on asset quality is realized through the CRE portfolio, which had an NPL ratio of 55% at 2014, although down from 59% at 2013. The bank has decreased its CRE exposure to 5% of the loan book at 2014 from 10% at 2012 (Figure 5c), however the divestment process was slowed down in the meantime by the acquisitions of Banco Civica and Banco de Valencia, which triggered a peak of NPLs in 2013. Additionally, Caixabank still maintains a material stock of repossessed real estates, which accounted for 5% of gross loans at 2014 (See Figure 4) and would push up the NPL ratio to 15% if included, which still compares favourably against Sabadell's 21% and Banco Popular's 27%.

Bankinter has a superior asset quality which has been resilient over the crisis, and compares favourably not only against the presented peers, but sector-wide as well. The bank's NPL ratio has stayed close to 5% throughout the crisis (See Figure 3), due to the small CRE exposure in the loan book (ca. 2% - Figure 5b). Moreover, the bank historically focused on retail lending with residential mortgages to middle - and high income households accounting for 40% of the loan book at 2014 (See Figure 5b) characterised by low LTV (loan-to-value) of 59%. Therefore, Bankinter's credit rating has been only marginally affected by the system-wide downgrade in June 2012, suffering only a 1 notch adjustment. Additionally, unlike its peers, Bankinter's asset

quality is not heavily contaminated by large stock of repossessed real estate assets (only 1% of gross loans – See Figure 4), while if we take into account the refinanced loans, the NPL ratio would increase to 8%, which still compares favourable against Caixabank's 18%, Sabadell's 33% and Banco Popular's 33%.

2) Capitalization

- *System average Common Equity Tier 1 ratio (CET1%) of 11.8% and Total Capital Ratio (TCR) of 13.6% comfortably reach the minimum requirements of 4.5% and 8% (Source: Bank of Spain)*

In the peer group, only Caixabank beats the system average capital ratios (See Figure 6). While the acquisition of Barclays Bank SAU⁷ in the beginning of 2015 had a negative impact of 78 bps on the bank's CET1%, the bank managed to close the 3rd quarter with a phased-in CET1 ratio of 12.8% and a TCR of 15.8% supported by organic capital generation (See Profitability section).

Bankinter ranks second in terms of capital ratios with comfortable buffers above the minimum requirements (CET1% of 11.9% and TCR of 12.9% at 3Q15) underpinned by 1) the bank's profitability (highest ROAE among peers of 7.8% at 2014) and 2) above average asset quality (lowest NPL ratio among peers of 5.1% at 2014).

Sabadell's capital position has been continuously strengthened over the past four years (See Figure 6), with CET1 ratio of 11.6% and TCR of 13% at 3Q15. While Sabadell has completed the acquisition of 100% of the UK based TSB in August 2015, the bank's capitalization has not suffered, due to the €1.6bn rights issue⁸ executed in relatively the same time period.

⁷ http://press.lacaixa.es/caixabank/press-releases/barclays-bank-sau-will-be-assimilated-into-caixabank-after-the-two-firms-agreed-to-merge__1775-c-21901__.html

⁸ <http://prensa.bancsabadell.com/en/News/2015/04/banco-sabadell-obtained-1746-million-euro-in-attributable-net-profit-1152-more-than-in-1q14>

Although the weakest among the four banks, Banco Popular has gradually improved its capitalization by 1) realizing capital gains on the sale of non-core businesses and the securities portfolio, 2) deleveraging the loan book and 3) tapping equity markets. While capital ratios are above the minimum requirements (CET1% of 12.65% and TCR of 13.2% at 3Q15), Banco Popular's capitalization is challenged by the high amount of NPLs which exposes the bank to potential shocks.

- *Favourable results of the ECB CA (Comprehensive Assessment) for Spanish banks*

Among the four banks analysed, each of them has passed the ECB's Comprehensive Assessment (Stress Test and Asset Quality Review⁹) and they all maintained comfortable buffers of core capital above the minimum requirements both in the adverse (5.5%) and baseline (8%) scenarios of the stress test. The AQR had a limited impact on banks' CET1, the best result shown by Sabadell with an adjustment of zero basis points on CET1 while Banco Popular was the weakest with an impact of ca. 57 bps on CET1 (See Figure 7). Overall, the CA has not shown the need for extensive additional provisions suggesting that reserve coverage ratios and the classification and valuation of assets have been adequate as of end-2013.

- *Deferred Tax Assets (DTAs) significant and weak part of capital*

DTAs originate from past negative profits, mainly caused by the substantial provisioning requirements faced by the Spanish banks during the clean-up exercise in 2012. In order to allow them to retain capital for DTAs under Basel III, the Spanish government (along with the Italian, Portuguese and Greek) passed a law (Royal Decree Law 14/2013) which allows part of the DTAs to be converted into tax credits and treat them as core capital¹⁰. Spanish banks' DTAs represent ca. 40% of the system's CET1 capital (*Source: ECB CA results*) with approximately

⁹ <https://www.bankingsupervision.europa.eu/banking/comprehensive/2014/html/index.en.html>

¹⁰ Mainly refers to DTAs stemming from temporary differences (caused by different tax and accounting treatments) related to i) allowances and provisions for credit risk and insolvency and ii) allowances or contributions to welfare and early retirement schemes (*Source: EY, KPMG*).

half of it being eligible for conversion (*Source: IMF, February 2014*). Figure 8 shows how the peer group compares to the system average. Bankinter's solvency is the least penalized, while Sabadell's capital quality is significantly harmed by the above average DTA-to-CET1 of 71%, followed by Caixabank (52%) and Banco Popular (37%) at 2014. When applying a more conservative definition of capital where all DTAs (not only the non-eligible ones) are deducted from CET1 capital, I have estimated the fully loaded CET1 ratios (See Figure 9), which reached only 4.6% for Sabadell – barely above the 4.5% minimum requirement, 9.6% for Caixabank and 9.3% for Banco Popular - which are still adequate, while Bankinter's capital ratio remains almost entirely unaffected (11.5%).

3) Profitability

- *Profitability remains weak sector-wise given 1) low interest rates, 2) ongoing deleveraging and 3) still high albeit declining loan impairments (58% of pre-impairment profits in 2014 vs. ca. 100% in 2013¹¹)*
- *On the positive side, earnings benefitted from 1) reduced funding costs (14.8% drop yoy¹²) and 2) non-recurrent gains realized on carry trades with sovereign bonds*

Banco Popular's NIM of 1.7% is the best among its peers (See Figure 10a) thanks to its extensive strategic focus on the higher yield SME segment, which accounted for 44% of the loan book granting the bank a market share of 12% in this segment at 1H15. However, this is partially offset by the riskiness of this client segment which resulted in credit costs that eroded ca. 70% of pre-impairment profits at 2014 (See Figure 11a).

Bankinter's superior asset quality helps top-line earnings (See Figure 10b), which is not weighed down by the large share of non-earning assets. On the other hand, the bank is faced with a substantial residential mortgage loan portfolio earning low yields and a sophisticated client base of high-net-worth individuals, in which segment the bank is a price taker rather than

^{11 11} Bank of Spain, Financial Stability Report (May 2015)

a price maker. Unlike Banco Popular, bottom-lines are not heavily penalized by loan impairments, with provisioning charges declining by 17% yoy at 2014 and making up only 37% of pre-impairment profits, which compares well against peers. Overall, the bank has a return on average equity of 7.6%, the highest among the four peers (See Figure 11b).

Sabadell's earnings have benefitted from the bank's strategic orientation towards the higher yield SME sector as well as the expansion strategy through acquisitions. While the total operating revenue has been upward sloping in the past 3 years (See Figure 10d), this was largely attributable to the net trading income represented by one-off gains on the sale of securities given favourable market conditions. The bank has the lowest cost-to-income ratio among the peers with 41% at 2014 vs. 56% at 2013 (See Figure 15) as cost synergies from acquisitions materialize.

Despite its position as 3rd largest bank in Spain with the strongest retail franchise and branch network among the four banks, Caixabank's bottom line profitability is the weakest when measured by ROAE and RRWA (See Figure 15). This is partly due to the weak operating efficiency, having the highest cost-to-income ratio (61% at 2014), but the bank targets to go below 45% by 2018. The bank should gradually see the materialization of the cost synergies from the Banca Civica, Banco de Valencia and Barclays Bank SAU acquisitions.

4) Funding and Liquidity

- *Focus on attracting customer deposits and reduce reliance on wholesale markets*
- *Liquidity is supported by the ongoing deleveraging and the ECB's TLTRO*

Bankinter has been historically wholesale funded shown by the generally high Loan-to-Deposit ratio (See Figure 12), although declined from 178% at 2011 to 138% at 3Q15 supported by the expanding customer deposit base (Figure 13a), but still the highest among the four banks and compares negatively against industry averages as well. It is noted that 59% of the wholesale funds represent mortgage covered bonds, which can be considered as quasi-deposits since they

are mainly sold to retail clients. If these bonds are included in the LDR calculation, the ratio drops from 138% at 3Q15 to ca. 116%, which is still slightly above that of domestic peers but more manageable. In terms of liquidity, Bankinter reports €8.7bn in liquid assets (ca. 15% of assets) at 3Q15, which covers more than two times the wholesale maturities of €3.8 in the next three years (See Figure 14a).

Caixabank has the strongest funding profile in the peer group supported by its robust customer deposit base which accounted for 73% of the funding at 3Q15 (See Figure 13b) thanks to its strong retail franchise as third largest bank in Spain. This is also reflected by the LDR, which has dropped from 141% at 2011 to 110% at 3Q15, driven by a combination of loan deleveraging and expanding customer deposits (See Figure 12). Similarly to Bankinter, wholesale funding (15% of the funding base) mainly stems from covered bonds (81% of wholesale at 3Q15). Caixabank reports an ample stock of liquid assets (cash, interbank assets, deposits with central banks, unencumbered sovereign bonds) in the amount of €51bn at 3Q15 (15% of assets) out of which €23.8bn constitute the unused ECB facility. These resources provide more than enough buffer against the wholesale maturities of €22.6bn in the next three years, which are well-spread over time (See Figure 14b).

Sabadell has been historically retail funded, with customer deposits accounting for 72% of funding sources at 3Q15 (See Figure 13c), after gradually increasing in the last 3 years mainly supported by the bank's growth strategy through acquisitions (2015: TSB, 2013: Banco Gallego and Lloyds Spain, 2012: Banco CAM). This customer deposit growth can be traced down also in the evolution of the LDR, which dropped from 127% at 2012 to 107% at 3Q15 (See Figure 12 and 13c). Additional funding is provided by 1) wholesale (14% at 3Q15), of which 58% related to covered bonds, 2) ECB funding (6.3% of funding base or 6% of assets) and 3) repos (5.5%). Sabadell reports an adequate stock of liquid assets reaching €24.4bn at 3Q15 (12% of assets) out of which €11.5bn can be pledged with the ECB in case of need. Considering the

wholesale maturities of €9.4bn in the next three years (See Figure 14c), it is safe to state that Sabadell has a sound liquidity buffer.

Banco Popular's customer deposits have been the most resilient in the crisis, with a CAGR (compound annual growth rate) of 9% over the period of 2011-2014. This is mirrored by the evolution of the LDR as well, which has dropped from 153% at 2011 to 115% at 3Q15 (See Figure 12 and 13d). It is notable that unlike peers, Banco Popular heavily relies on clearing houses and repos, which provided 16% of the total funding base at 3Q15. This, together with the bank's sizeable funding from the ECB (10%) mainly from TLTRO (Targeted Longer-Term Refinancing Operations), exposes the bank to political risks and margin call risks, putting pressure on liquidity. Additionally, the bank resorts to wholesale funding (15%), in line with peers, with 56% relating to covered bonds. The bank reports available liquid assets of €12.4bn at 2014, which is enough to cover wholesale maturities in the next two years (Figure 14d).

5) Conclusions

Bankinter (baa3) is currently the highest rated bank in the peer group and the second highest along with Banca March in the pool of rated Spanish banks by Moody's following Banco Santander (baa1) and BBVA (baa2). While it has the smallest market share among the four banks, with total assets three times lower than Sabadell's and Banco Popular's, it generates 3/4th of their net profit, and total assets six times lower than Caixabank's, but profits reach almost half of Caixa's at 2014. I believe it is safe to state that the biggest driving force of the baa3 BCA is Bankinter's superior asset quality, which materializes in the smallest NPL ratio, immaterial CRE exposure and the lowest cost of risk. In my opinion, the baa3 rating is the highest it can get, since the two Spanish banks (Santander & BBVA) rated only 1-2 notches higher account for more than half of the domestic bank assets and they benefit from an extensive geographic diversification in more advanced economies outside Spain. On the negative side,

downward pressure on the rating could materialize from 1) a higher reliance on wholesale funding and 2) deterioration in the bank's internal capital generation.

Caixabank (ba1) is the second highest rated among the four banks, to a large extent underpinned by the strong retail franchise as third largest bank in Spain. Positive factors on the bank's credit rating are 1) the resilient customer deposit base and 2) the stabilizing and below system average NPL ratio. In my view, the factor that could trigger a positive or negative rating action is the evolution of Caixabank's profitability, which is currently weak relative to the bank's size (ROAE and RRWA are the lowest in the peer group, see Figure 15).

Sabadell (ba3) comes the closest to Banco Popular in terms of market share and size as well as risk profile. The 1-notch rating difference between the two mainly stems from the asset quality indicators in which Sabadell compares favourably with stronger loan loss reserve coverage, significantly lower CRE exposure and lower NPL ratio when accounting for the Asset Protection Scheme. In my opinion, Sabadell's credit rating could move upwards if the bank manages 1) to continue the wind-down of the legacy portfolio linked to real estate with limited losses, 2) improves its profitability indicators as it embarks on a corporate and SME banking driven business profile, similar to Banco Popular and 3) enhances its capital quality, which is currently harmed by the large stock of DTAs.

Banco Popular (b1) is the fifth largest bank in Spain, number one player in SME banking, but with a historically weaker and more vulnerable credit risk profile compared to peers. I strongly believe that the key to a higher rating is the wind down of the NPLs and real estate related problem assets, which not only pressure the risk absorption capacity of the bank, but significantly weighs down bottom line earnings, as cost of risk wipes out more than half of pre-impairment profits.

Concluding, this paper serves as the foundation to future credit rating-related studies, such as the potential development of a rating scorecard composed of financial ratios that define banks' standalone credit worthiness. The comparative analysis allowed for exploiting how the chosen banks are positioned relative to the sector and to each other as peers (See Figure 15), based on the interactions between these financial fundamentals.

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Appendix

Figure 1: Moody's Baseline Credit Assessment of the four Spanish banks (Source: Moody's)

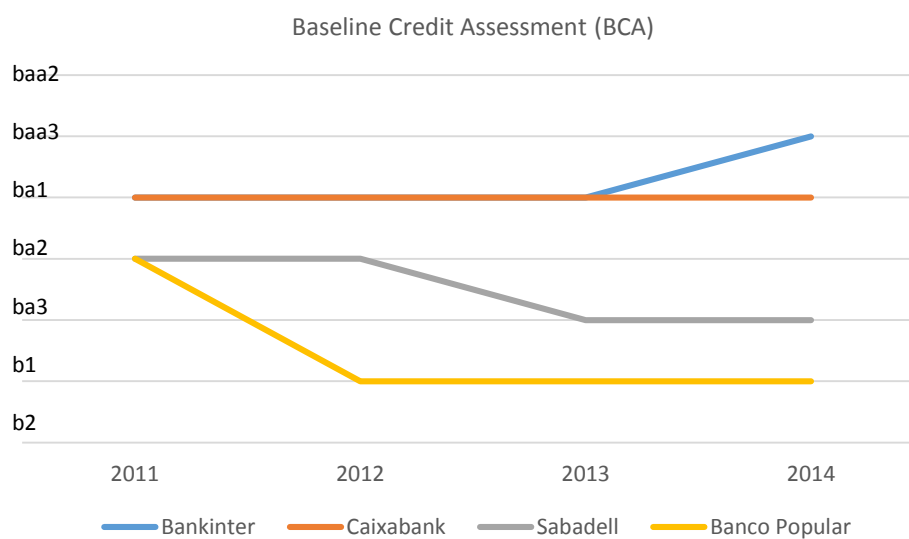


Figure 2: List of Spanish banks rated by Moody's at June, 2015 (Source: Moody's)

Spanish Banks Rated by Moody's	
17 June, 2015	Baseline Credit Assessment (BCA)
Banco Santander, S.A.	baa1
Banco Bilbao Vizcaya Argentaria, S.A.	baa2
Caixabank	ba1
Bankia, S.A.	b2
Banco Sabadell, S.A.	ba3
Banco Popular Espanol, S.A.	b1
Unicaja Banco	b1
Ibercaja Banco SA	b1
Kutxabank, S.A.	ba2
Bankinter, S.A.	baa3
ABANCA Corporacion Bancaria, S.A.	b3
Catalunya Banc	caa2
Liberbank	b1
Caja Laboral Popular Coop. de Credito	ba1
Banco Cooperativo Espanol, S.A.	ba2
Banca March S.A.	baa3
CECABANK S.A.	ba1
Caja Rural de Navarra	baa3

Figure 3: Evolution of banks' NPL ratio (%)

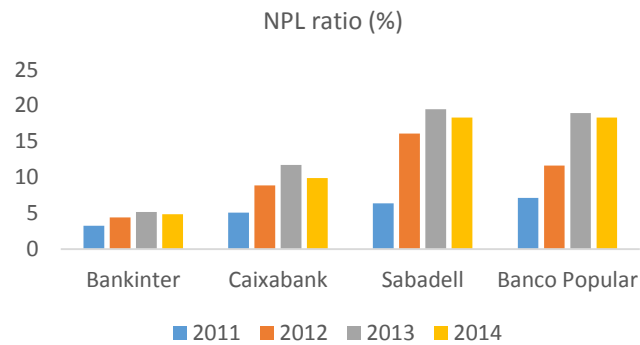


Figure 4: Real estate – related problematic assets as percentage of gross loans at 2014

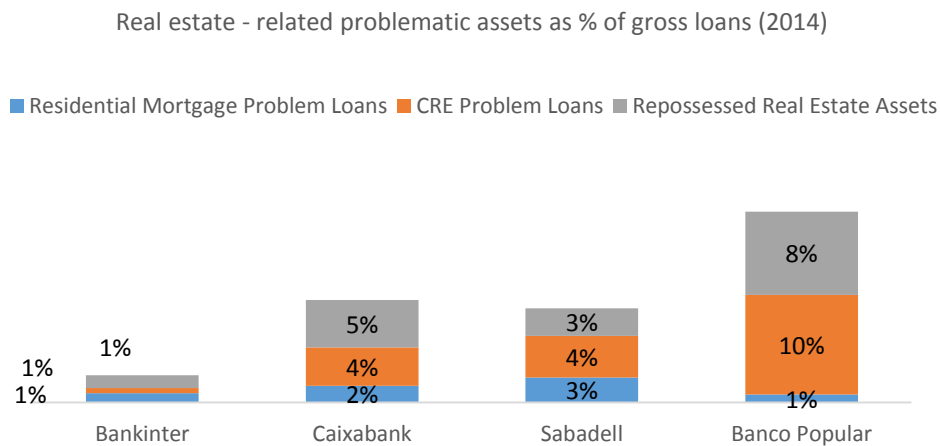
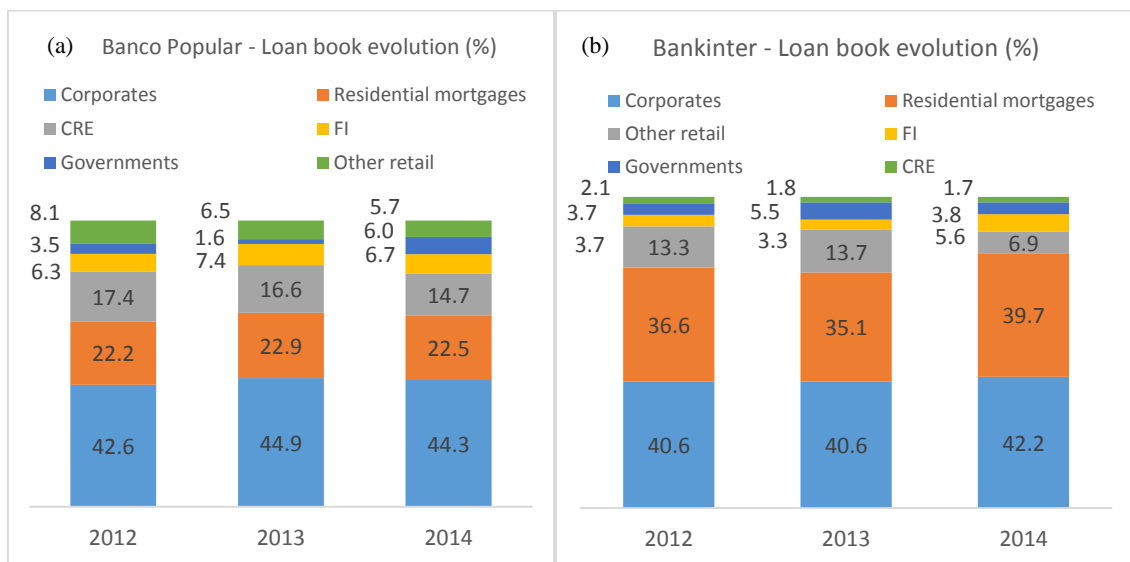


Figure 5: Evolution of loan book composition



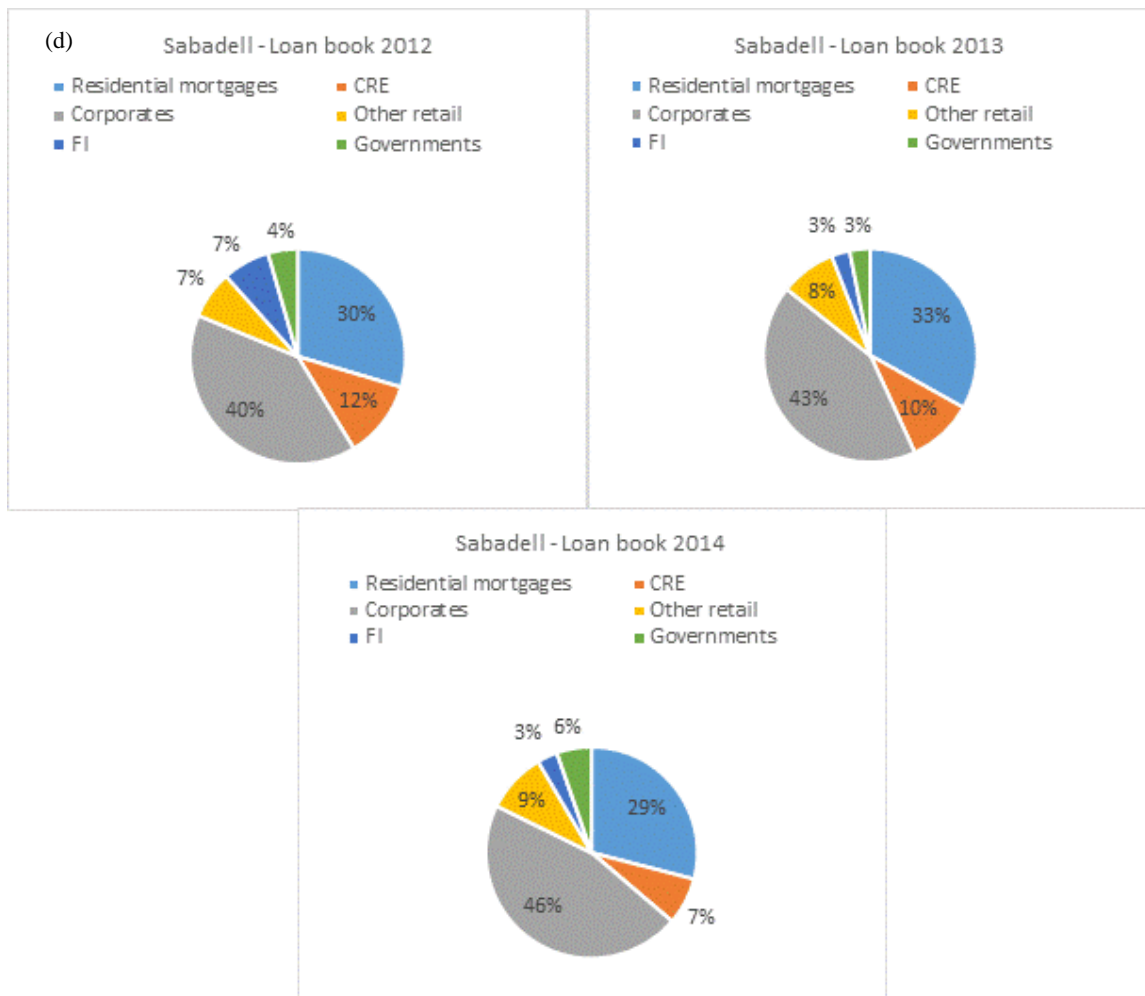
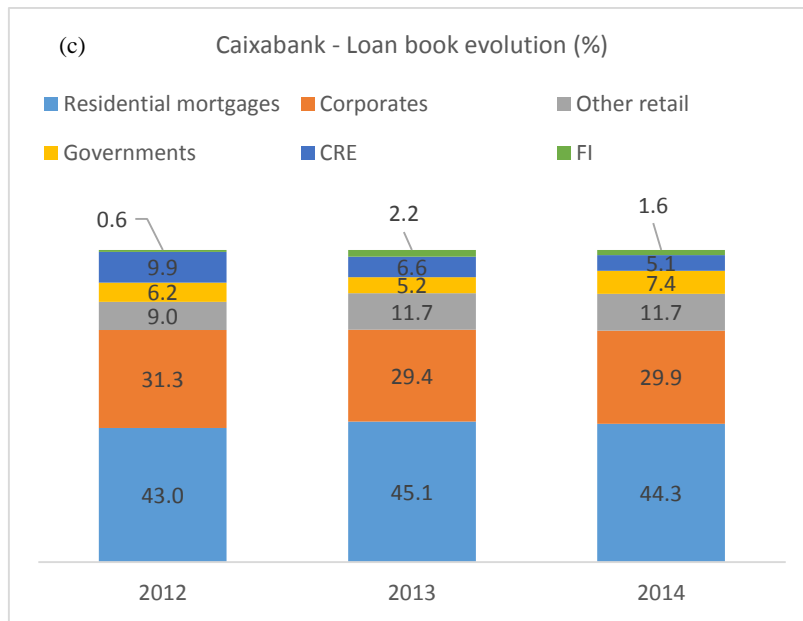


Figure 6: Evolution of banks' Total Capital Ratio (%)

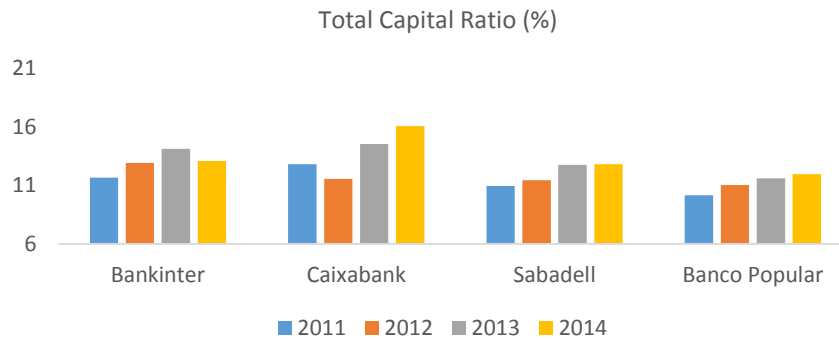


Figure 7: ECB Comprehensive Assessment results for Spanish banks – ranked by basis points impact of AQR on CET1 (Source: ECB)

Bank	Unstressed FYE13 CET1%	Stressed CET1%			Basis Points Impact		
		Adverse	Baseline	AQR	Adverse	Baseline	AQR
Cajamar	11.0	8.0	10.2	10.0	-196	22	-105
Liberbank	8.7	5.6	8.5	7.8	-220	69	-83
Banco Popular	10.6	7.6	10.2	10.1	-250	14	-57
Banco Mare Nostrum	9.4	8.1	10.3	9.0	-93	128	-43
Bankinter	12.0	10.8	11.6	11.7	-87	-4	-37
BBVA	10.8	9.0	10.2	10.5	-158	-31	-21
Unicaja	11.1	8.9	11.1	10.9	-199	25	-21
Catalunya Banc	12.3	8.0	11.8	12.2	-420	-45	-10
Kutxabank	12.1	11.8	12.4	12.0	-22	33	-8
BFA / Bankia	10.7	10.3	12.3	10.6	-30	173	-8
Abanca (NCG Banco)	10.3	9.1	11.5	10.2	-104	132	-7
Banco Santander	10.4	8.9	11.1	10.3	-140	71	-4
Caixabank	10.3	9.3	10.8	10.2	-99	55	-4
Ibercaja	10.0	7.8	10.3	10.0	-219	30	-2
Banco de Sabadell	10.3	8.3	10.2	10.3	-193	-10	0

Figure 8: Deferred tax assets as percentage of Common Equity Tier 1

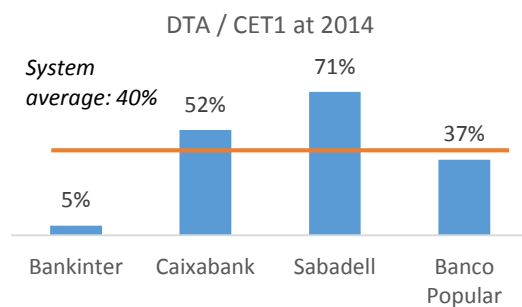


Figure 9: Adjusted CET1 ratio for DTAs

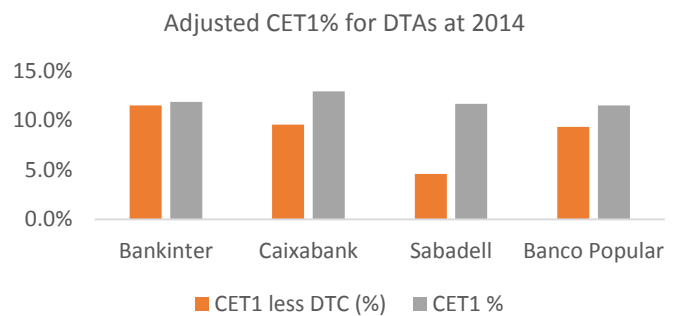


Figure 10: Evolution of the operating revenue (€m) and Net Interest Margin (%)

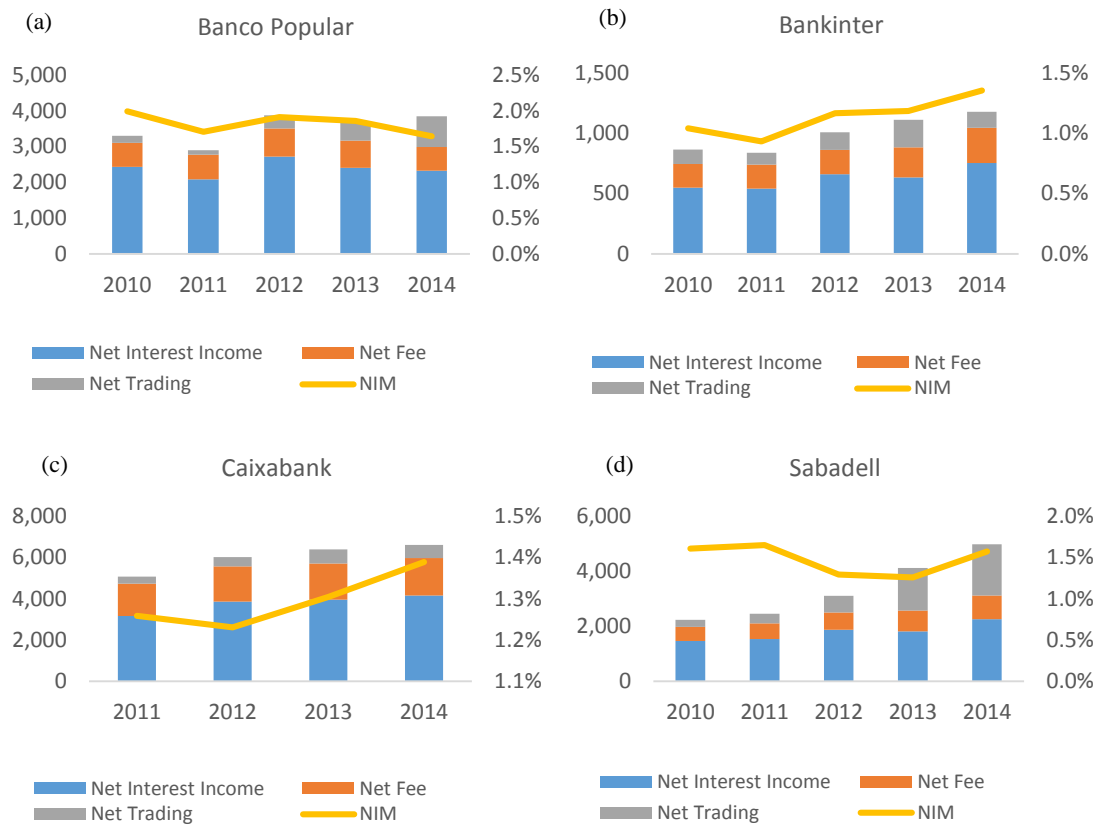


Figure 11: Impact of loan provisions on net profit

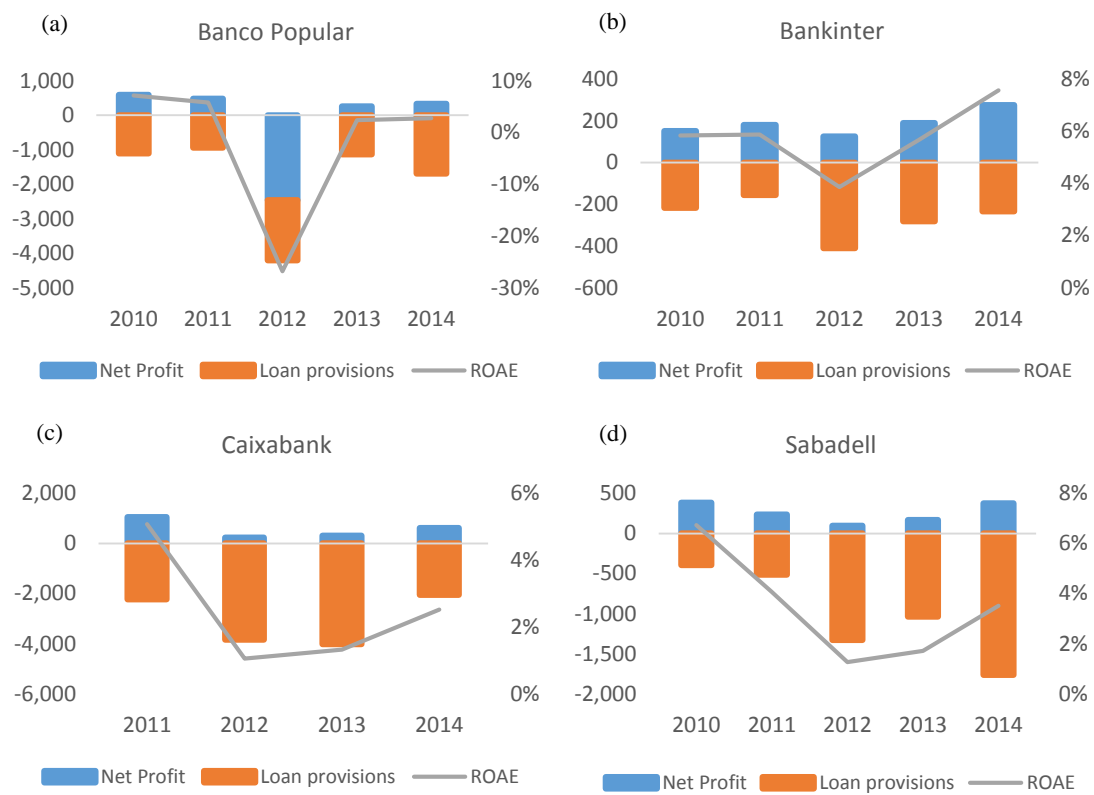


Figure 12: Evolution of the Loan – to – Deposit Ratio

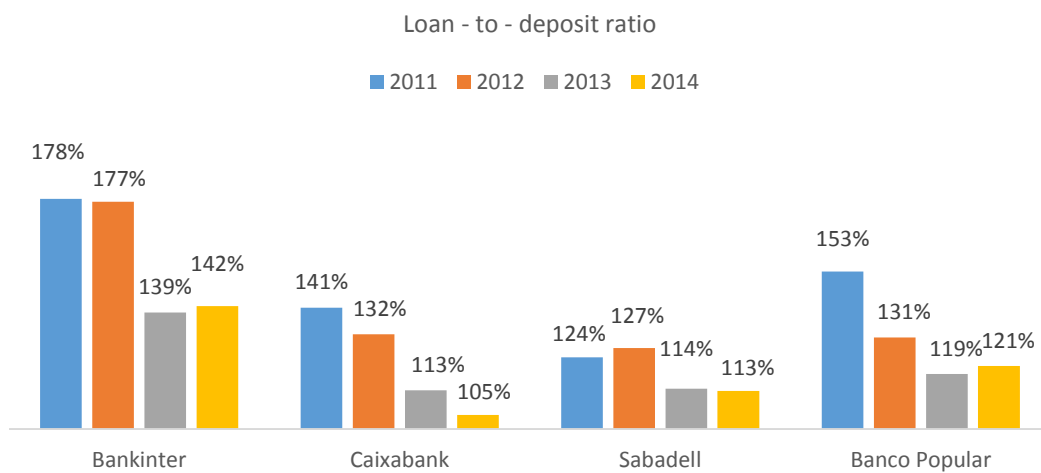


Figure 13: Evolution of funding structure

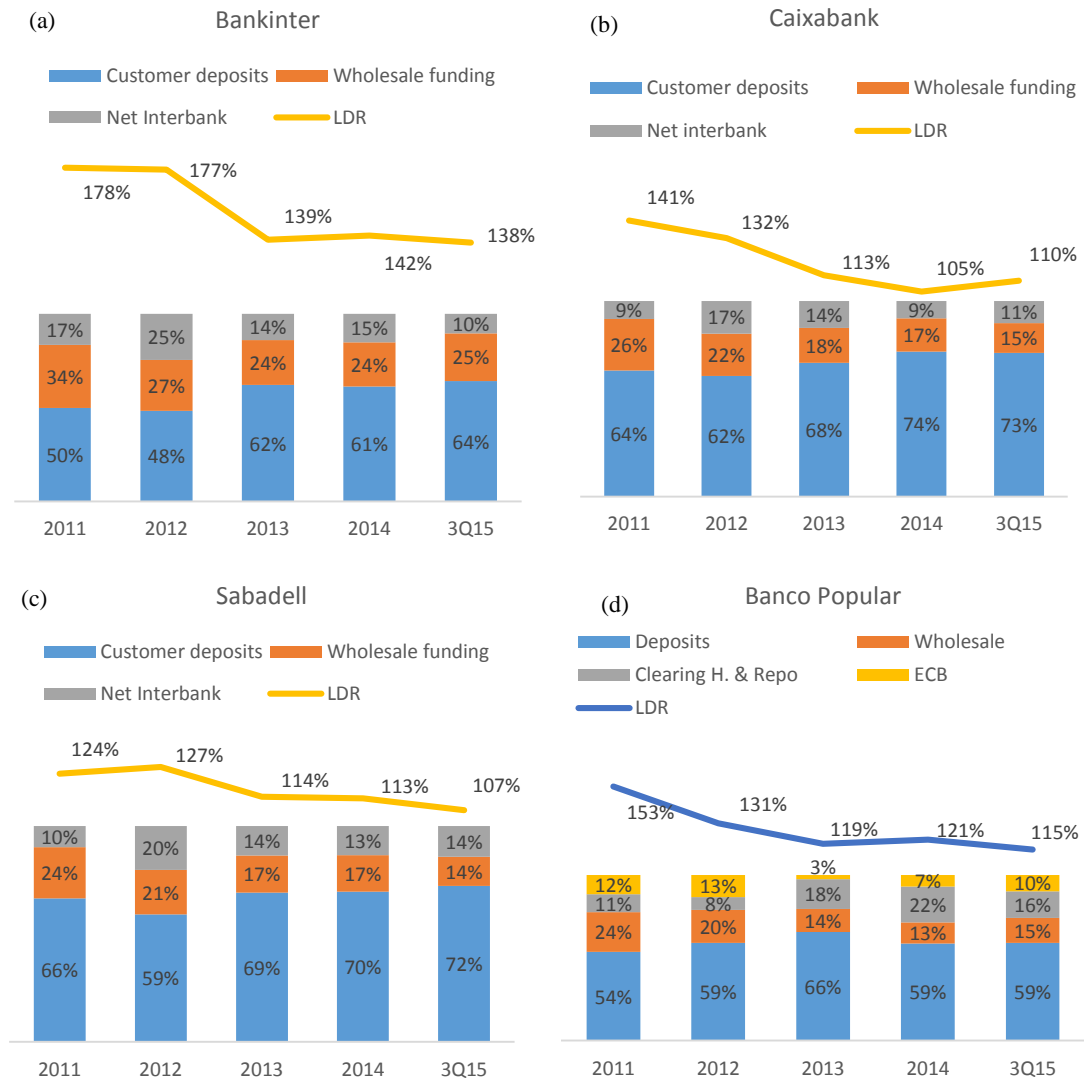


Figure 14: Wholesale funding maturities at 3Q15 (€bn)

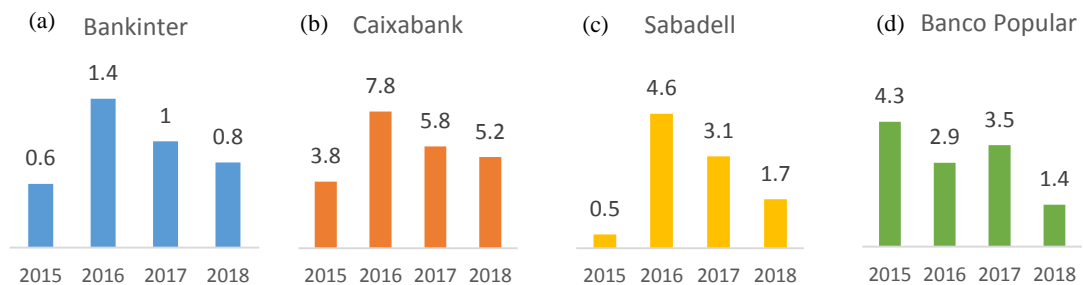


Figure 15: Peer Group Table

	Bankinter				Caixabank				Sabadell				Banco Popular			
Moody's BCA	ba1	ba1	ba1	baa3	ba1	ba1	ba1	ba1	ba2	ba2	ba3	ba3	ba2	b1	b1	b1
12-months ended (€m)	2011	2012	2013	2014	2011	2012	2013	2014	2011	2012	2013	2014	2011	2012	2013	2014
Asset Quality (%)																
NPL ratio	3.2	4.4	5.2	4.8	5.1	8.9	11.7	9.9	6.4	16.1	19.5	18.3	7.1	11.6	18.9	18.3
Cost of risk (bps)	34	92	65	52	119	170	189	103	68	109	83	149	95	357	104	155
CRE / gross loans	N/A	2.1	1.8	1.7	N/A	9.9	6.6	5.1	N/A	11.7	10.0	7.2	N/A	17.4	16.6	14.7
Capitalization (%)																
CET1 ratio	8.8	10.4	12.9	11.9	12.5	11.0	12.9	13.0	9.0	10.5	12.0	11.7	10.0	10.3	11.2	11.5
Total Capital Ratio	11.7	12.9	14.1	13.1	12.8	11.6	14.5	16.1	11.0	11.4	12.8	12.8	10.2	11.0	11.6	12.0
DTA / CET1	4.1	5.6	4.5	4.7	13.2	40.1	57.5	51.9	19.7	70.9	71.1	70.7	11.8	38.8	34.8	37.3
Profitability (%)																
Net interest margin	0.9	1.2	1.2	1.4	1.3	1.2	1.3	1.4	1.7	1.3	1.3	1.6	1.7	1.9	1.9	1.6
RRWA	0.6	0.5	0.8	1.1	0.8	0.1	0.2	0.4	0.4	0.1	0.2	0.5	0.5	-2.8	0.3	0.4
ROAE	5.9	3.9	5.7	7.6	5.1	1.1	1.3	2.5	4.1	1.3	1.7	3.5	5.8	-26.8	2.4	2.7
Cost-to-Income Ratio	62.7	53.7	55.8	54.7	46.4	46.3	61.8	61.5	51.8	61.8	55.7	40.9	39.3	47.5	42.9	43.8
Funding & Liquidity (%)																
Loan - to - deposit ratio	178.0	176.9	139.4	141.6	141.1	132.1	113.1	104.8	124.3	127.5	113.7	112.9	153.3	131.0	118.6	121.3
Market share (of assets at FYE14)	2%				9%				4.6%				4.5%			